



# HOUSE BUDGET COMMITTEE

## Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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### Tax Relief and Investment Incentives

#### Immediate Tax Relief for All Working Families

- **Overview** — All workers should receive an immediate refundable rebate from the Treasury, offsetting some of their tax liability (including taxes other than income taxes). The rebate that Democrats initiated two years ago proved to be the most effective recession-fighting tool in the 2001 tax cut, while this new rebate will help all working Americans including those who got nothing in 2001. Consumer spending from the rebate would stimulate the economy by providing incomes for businesses and encouraging them to hire and invest to meet the increased demand.
- **Last Year's Rebate Left Out Some Families** — The major complaint about last year's rebate was that it applied only to positive income tax liability. Therefore, lower-wage workers who owed no income tax received no benefit, even though they did pay other taxes. For 2001, a family of four could earn \$19,200 and receive no rebate whatever; that income level would equal the earnings of a full-time, full-year worker at \$9.60 per hour, or almost twice the minimum wage of \$5.15 per hour. Such a family pays a significant share of its income in several kinds of taxes, even though it owed no federal income tax.
- **A Rebate for All Working Families** — Accordingly, Democrats propose a refundable income tax rebate equal to 10 percent of earned income (wages and income from self employment) up to \$6,000 of earnings for a couple, and \$3,000 for a single person. Thus, the maximum rebate will be \$600 for a couple, and \$300 for a single person. The rebate will be delivered in the same fashion as the rebate of 2001 — that is, based on tax returns already filed, and sent by the Treasury without any action by the taxpayer. The rebate would be paid from the general fund of the Treasury and **not** from payroll taxes or the Social Security Trust Fund.

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## Stimulus for Investment

- ***Stimulus for Investment: Small Businesses*** — The current law allows smaller businesses (those with investment less than \$200,000 per year) to expense (that is, to deduct immediately) the cost of their first \$25,000 of investment. Democrats propose to increase the amount of small-business investment eligible for expensing in 2003 to \$50,000. This provision will increase the cash flow of small businesses, increasing their ability to invest and create jobs. It will also encourage them to act now to increase their investment, because the higher limit for expensing is available in 2003 only.
- ***Stimulus for Investment: Larger Businesses*** — If a stimulus package is to encourage investment now, it must make the treatment of investment in 2003 superior to that in 2004 and later years. However, the 30 percent bonus depreciation incentive for investment in the last stimulus package extended over three years (from mid-2001 through most of 2004), allowing businesses to defer investments until 2004 and still reap extra tax benefits. Democrats want tax incentives to encourage business investment now, in 2003. Accordingly, Democrats propose to increase the bonus depreciation percentage from 30 percent to 50 percent in 2003, but to decrease it from 30 percent to 10 percent in 2004. This will encourage firms to increase investment now, when the economy is weak, building momentum for a self-sustaining recovery in later years.